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INDUSTRIAL PRODUCTION FIGURES FOR JANUARY-APRIL 1988

Product	Jan-April 1988	Jan-April 1988 as a % of Jan-April 1987
Electricity (billion kw hrs)	605	102%
Petroleum (million tons)	208	102
Natural Gas (billion meters^3)	260	107
Coal (million tons)	268	103
Steel (million tons)	54.6	102
Fertilizer (million tons)	12.5	103
Metal-cutting tools (thousand units)	7.2	102
Robots	*	*
Computer tech. (billion rubles)	2.0	115
Tractors (million hp)	17.9	100.8
Paper (million tons)	2.1	104
Cement (million tons)	46.0	103
Meat (million tons)	3.9	102
Margarine (thousand tons)	578	103
Watches (million units)	24.4	106
Radios (million units)	2.6	99.6
TV sets (million units)	3.2	118
Automobiles (thousand units)	443	99.2

* not published

Source: Ekonomicheskaia gazeta, # 21, 5/88, p. 13

Commentary on Soviet production figures will return in the next issue of the Economic Newsletter

SOVIET BALANCE OF TRADE WITH EASTERN EUROPE

The Soviet trade figures with Eastern Europe indicate the Soviets are putting increased pressure on Eastern Europe. This is reflected by the fact that Soviet exports to the East European bloc in 1987 in ruble terms fell by 1.5 billion rubles. That may reflect in part the drop in the price of petroleum, but it probably goes beyond that, and suggests that there is also a drop in actual volume of exports from the Soviet Union. In addition, the Soviets have been importing more from Eastern Europe. As a consequence, the Soviets now actually have a slight trade deficit with Eastern Europe, whereas as indicated by the table, they have been running a significant trade surplus until 1987. These imports are obviously helping the Soviet Union with both consumer goods and machinery. In other words, imports from Eastern Europe in 1987 rose by 1.2 billion rubles. That in part offsets the drop in imports from the hard currency bloc that was noted in the May newsletter.

RUSSIAN RESEARCH CENTER PROGRAM IN THE USSR

Due to the overwhelming interest in our September program in the Soviet Union, we have now instituted a waiting list for this year's trip. If you would like information about the itinerary, contact Catherine Reed, Program Coordinator, Russian Research Center, 1737 Cambridge Street, Cambridge, MA 02138.

FOREIGN EXCHANGE RATES

Currency (per 100)	Rate on May 4
Austrian shilling	5.03
English pound	111.21
West German mark	35.42
Italian lira	.476
U.S. dollar	59.46
French franc	10.42
Swiss franc	42.52
Japanese yen	.0476

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SOVIET BALANCE OF TRADE WITH EASTERN EUROPE
(in million rubles)

	Exports from U.S.S.R.								Imports to U.S.S.R.							
	1980	1981	1982	1983	1984	1985	1986	1987	1980	1981	1982	1983	1984	1985	1986	1987
Bulgaria	3660	4375	4885	5511	6124	6435	6788	6276	3439	3697	4288	5053	5608	6040	6191	6552
Czecho-slovakia	3648	4382	5048	5872	6591	6813	6947	6777	3536	4105	4732	5420	6017	6587	6556	6907
GDR	4873	5526	6420	6798	7481	7652	7880	7636	4327	5155	5776	6596	7367	7553	7128	7093
Hungary	2982	3307	3707	4058	4321	4560	4678	4600	2757	3300	3746	4007	4434	4850	4873	5080
Poland	4406	4931	4813	5274	6069	6517	6814	6542	3596	3221	4097	4787	5297	5525	6128	6329
Romania	1350	1779	1424	1640	1807	1949	2823	2539	1441	1673	1683	1665	1755	2277	2415	2347
	20919	24300	26297	29153	32393	33926	35930	34370	19096	21151	24322	27528	30478	32832	33291	34408
Balance of Trade									+1823	+3149	+1975	+1625	+1915	+1094	+2639	-38

*Note switch in balance

Soviets Venture Not Far Enough

By MARSHALL I. GOLDMAN

After a cautious beginning, Mikhail Gorbachev is introducing economic reforms that mark a radical break with Marxist ideology. For example, for more than 70 years the Soviet Ministry of Foreign Trade monopolized foreign-trade activity. Now Mr. Gorbachev not only has abolished the ministry, but he has authorized the creation of joint ventures with capitalists. Admittedly no foreigner can own more than a 49% share, but these joint ventures can operate on Soviet territory. That means they have the power to hire and fire Soviet workers, interact with the Soviet economy, and import and export on their own.

Foreigners have had no such powers since the 1920s, when Stalin closed down factories run by U.S. businessmen such as Armand Hammer and Averell Harriman. Mr. Gorbachev's need for such a bold reversal is clear. He has come to realize that the Soviet Union has not been able to obtain full productivity from the technology it purchased from foreign manufacturers.

Surveys of Western businessmen who have seen the equipment they have sold to the Soviet Union in operation indicate that the Soviets derive, on average, only 60% of the productivity that machinery generates in the capitalist world. Once purchased, the imported machinery is seldom if ever upgraded or diffused throughout the rest of the Soviet economy. Finally, by refusing to allow foreigners to invest in the Soviet Union, the Soviets have had to pay for all this equipment themselves. This has increased their hard-currency debt.

The return of joint ventures should do much to change all of this. Ventures alone will not be enough to ensure the success of Mr. Gorbachev's *perestroika*, but if allowed to operate properly, they should at least make it possible to increase the productivity of the technology that is imported.

For example, officials of Combustion Engineering, the first major American company to conclude a joint-venture agreement, estimate that wherever used, its equipment will make possible an immediate 20% to 25% increase in petroleum and petrochemical production. Honeywell and Occidental Petroleum, the second and third American companies to form joint ventures, estimate their equipment will have a similar impact on Soviet fertilizer and chemical output.

What is surprising is not that there is such great potential, but that so few Western companies have signed formal agreements. Even though the joint-venture law has been on the Soviet books for almost a year and a half, only about 35 companies have completed accords. Moreover, the vast majority of ventures involve a minimum capital investment. Some are putting in as little as a million dollars. By contrast, there are more than 9,000 joint ventures operating in China. Admittedly, the Chinese laws were passed several years earlier, and many Chinese ventures still are not profitable.

Yet the contrast between the joint-venture process in China and the Soviet Union suggests that the Soviet ventures probably will never be as important as Mr. Gorbachev would like them to be. Among other differences, in China there are no limits to the share a foreign company may own. Some Americans operate wholly owned subsidiaries in China. Most important, the Chinese joint ventures have been considerably more successful in finding ways to take profits out of the country.

The inability to convert the ruble earned inside the Soviet Union into exportable dollars is the main hurdle for most companies there. Soviet authorities almost always insist that all hard currency come from exports. But Soviet technology, even in joint ventures, is not normally up to world standards. The Chinese ventures solved these problems by producing very cheap labor-intensive products, such as textiles, toys and electronics. It is unlikely the Soviets will agree to allow foreigners to operate poorly ventilated, overcrowded factories, as they do in China, 10 hours a day, six days a week.

Unlike Lenin, who justified the return to foreign investment in the Soviet Union as one step backward, Mr. Gorbachev views joint ventures as a step forward. But to have an impact, he will have to go even further. The Soviets will have to relax ideological constraints even more. Western owners must be allowed more than a 49% share, and the barriers to the repatriation of profits must be relaxed. In addition, operating procedures must change. For example, Soviet authorities still have not found office space for Combustion Engineering's joint venture.

If Mr. Gorbachev continues to be bound by the ideological niceties, he may avoid attack by Soviet conservatives, but he will not attract the investors in the number and with the magnitude of investment he must if joint ventures are to make a difference. It is a choice between ideology and results. But without results, he may find that the ideology will not be worth preserving.

Mr. Goldman is an economics professor at Wellesley College and associate director of the Russian Research Center at Harvard, where he is organizing a joint-venture study project.

What's Behind This Amazing Turn?

Perestroika, but Also Reagan's Tenacity, Readiness to Negotiate

By ADAM B. ULAM

The two men will be meeting for the fourth time, and this occasion may well turn out to be the most significant—not only insofar as personal contacts between Ronald Reagan and Mikhail S. Gorbachev are concerned but also in the entire history of post-World War II encounters between Presidents of the United States and heads of the Soviet regime.

The background and circumstances of the Moscow summit meeting endow it with vast potential significance not only for the two countries but for the entire world as well. Two weeks before the meeting the Soviet army began evacuating Afghanistan—the first time in 40 years that the Kremlin has appeared ready to stop supporting a client communist regime by armed force and to risk its overthrow. Thus what has been a cardinal goal of American foreign policy at least since 1947—containment and even "rollback" of Soviet imperialism—finally seems to be in sight.

Equally weighty in its potential implications is the progress that both sides have made in synchronizing their views on control and reduction of nuclear arms. The treaty on intermediate-range nuclear forces may be ratified by the Senate by the time President Reagan steps down from Air Force One. The two leaders will undoubtedly pledge to intensify their efforts to reach an agreement on strategic nuclear weapons. There will be discussion and possibly agreements on a number of less momentous issues.

There are bound to be disagreements as well. The Soviets are unlikely to drop entirely their objections to the Americans proceeding with their "Star Wars" program. The Americans will urge their hosts to observe human rights and to allow freer emigration—something that even in the era of *glasnost* must lead to an argument.

Yet, barring something unexpected, the contentious questions will be handled through a dialogue rather than becoming the subjects of a confrontation. Nor should we think of the personal aspects of the summit as of secondary importance. It is of tangible political as well as symbolic significance that the most conservative among post-war American Presidents should be going to, and be respectfully received in, the capital of the country that he had once described as "the evil empire."

What has led to this amazing turn of events? Well, to some extent the requirements of *perestroika*. The efforts to impart new dynamism to the economy, to restructure Soviet society so as to remove the lingering effects of Stalinism and of the political malaise of the Brezhnev era, do call for a greater concentration on domestic issues and, hence, new and more extensive detente in East-West relations. And so does the Kremlin's desire to secure greater trade, infusion of technology and credits from the capitalist world. But, quite apart from such considerations, there were signs even antedating Gorbachev's ascent to power that some within the leadership felt that the Soviet Union was dangerously overextended insofar as its expansionist strivings were concerned. They urged retrenchment, as well as the need to lower the level of tension between the superpowers. And the present general secretary has been more emphatic and explicit than his predecessors were in maintaining that no efforts must be spared to avoid the danger of a nuclear confrontation, and that no margin of military superiority on either side could keep such a confrontation from having cataclysmic results for everyone.

In addition to such common-sense considerations, Gorbachev's opening toward the United States has also been influenced by political reasons. The general secretary's position has become quite vulnerable, as many within the Kremlin inner circle feel that he has carried his policy of *glasnost* to the point where its reverberations threaten the very foundations of the Soviet system. But much as Gorbachev may have become unpopular with some of his Politburo colleagues, they are less likely to try to overthrow him as long as he is personally involved in delicate negotiations with the United States and stands in the eyes of his own people, as well as the West, as the champion of peace and a general alleviation of international tensions. Successful "summitry" is then a kind of political reinsurance for Gorbachev.

Skeptics will question the utility of the Moscow meeting, as well as the likelihood of the present Soviet-American rapprochement's developing into a long-term detente. Indeed, it is unwise to conclude that the men in the Kremlin have now irreversibly abandoned their role as international mischief-makers and are firmly determined to cultivate their own garden.

On balance, however, there is room for cautious optimism. This optimism must be accompanied by the realization that much of the favorable development in East-West relations has been due to facts other than just a change of heart on the part of the Soviets. Whatever its mistakes in other areas, the present American Administration has in its stance *vis-a-vis* the Soviet Union displayed a sound combination of tenacity and readiness to negotiate. For all of Reagan's recent travails, he can congratulate himself that it was during his term of office that the Kremlin began to show readiness to reverse its previous policies of expansionism and attempted intimidation of the West. And so the prospects for peace and international stability will continue to depend not only on what happens in Moscow but also on America's ability to display the right proportion of firmness and conciliation in its policies.

Adam B. Ulam is director of the Russian Research Center at Harvard University and author of the just-released novel, "The Kirov Affair" (Harcourt Brace Jovanovich).